

State Of Rhode Island – Division Of Taxation

Credits

Regulation CR 03-07

Research and Development Expenses Credit

I. GENERAL:

A credit is available to corporations, sole proprietors, or passed through from partnerships, joint ventures or subchapter S corporations for qualified research expenses. The credit is 5% of the excess (if any) of the qualifying research expenses in the taxable year over the base period expenses. The expenses must have been incurred in Rhode Island after July 1, 1994. For periods January 1, 1998 and thereafter, the credit is 22.5% for expenses up to \$111,111 and 16.9% for the remaining expenses over \$111,111.

II. DEFINITIONS:

The terms "qualified research expenses" and "base period research expenses" shall have the same meaning as defined in section 41 of the Internal Revenue Code, provided, however, that such expenses shall have been incurred in this state after July 1, 1994.

III. CALCULATION OF THE CREDIT:

The credit is based on the amount of the taxpayer's Federal excess expenses and is calculated by first determining what of the taxpayer's Federal excess expenses were incurred in Rhode Island after July 1, 1994 and then multiplying that amount by the 5% rate to yield the Rhode Island credit. For periods January 1, 1998 and thereafter, the credit is 22.5% on the expenses up to \$111,111 and 16.9% for the remaining expenses over \$111,111.

EXAMPLE A: Taxpayer A has completed and claimed its Federal Section 41 credit and has qualified research expenses for its Federal credit of \$100,000; its Federal Section 41 base amount is \$75,000; all expenses were incurred in Rhode Island and were incurred evenly throughout 1995 and A has a calendar year end. Taxpayer A's 1995 RI R & D expense credit is calculated as:

Federal Qualified Research Expenses	\$100,000
Federal Base Amount	75,000
Federal Excess Expenses	25,000
Amount of Federal Excess Expenses in RI	25,000
Amount of Expenses in RI after 7/1/94	25,000
Credit @ 5%	1250

EXAMPLE B: Taxpayer B has a similar fact pattern to Taxpayer A above except that Taxpayer B has a March 31 year end. Taxpayer B's FYE 3/31/95 RI R & D expense credit is calculated as:

Federal Excess Expenses	\$25,000
Amount of Federal Excess Expenses in RI	25,000
Amount of Expenses in RI after 7/1/94	18,750 (9 mos)
Credit @ 5%	938

EXAMPLE C: Taxpayer C has a similar fact pattern to Taxpayer A above except that the excess federal expenses were specifically identified as \$9,000 in August in Connecticut and \$16,000 in October in Rhode Island. Taxpayer C's calendar year 1995 RI R & D expense credit is calculated as:

Federal Excess Expenses	\$25,000
Amount of Federal Excess Expenses in RI	16,000
Amount of Expenses in RI after 7/1/94	16,000 specific
Credit @ 5%	800

EXAMPLE D: Taxpayer D has a similar fact pattern to Taxpayer B above except that the excess federal expenses were specifically identified as \$9,000 in August in Connecticut, \$7,000 in May 1994 and \$9,000 in October in Rhode Island. Taxpayer C's fye 3/31/95 RI R & D expense credit is calculated as:

Federal Excess Expenses	\$25,000
Amount of Federal Excess Expenses in RI	16,000
Amount of Expenses in RI after 7/1/94	9,000 specific
Credit @ 5%	450

EXAMPLE E: Taxpayer E has \$135,000 of qualified expenses in tax year 2000. The credit is calculated at 22.5% of the first \$111,111 and 16.9% of the remaining expenses over \$111,111. The credit is \$29,037 [\$111,111 @ .225% or \$25,000] plus \$4,037 [16.9% of the remaining \$23,889].

IV. MINIMUM TAX AND CARRYOVER:

In the case of corporations, the credit allowed shall not reduce the tax due to less than the minimum fixed by section 44-11-2(e); however, if the amount of credit allowable reduces the tax to the minimum fixed by section 44-11-2(e), any amount of credit not used may be carried over to a maximum of seven (7) years. For purposes of chapter 44-30 (Personal Income Tax), if the credit allowed exceeds the taxpayer's tax, the amount of credit not used may be carried over to a maximum of seven (7) years.

V. LIMITATION AND ORDER OF CREDITS:

A. For purposes of determining the order in which carry-overs shall be taken into consideration, the credit allowed by section 44-32-2 (credit for research and development property) shall be used before the credit described in this regulation. The investment tax credit allowed by section 44-31-1 shall be used before the credit described in this regulation.

B. The credit is limited to one-half the tax otherwise payable after all other credits available to the taxpayer have been used.

EXAMPLE F. Taxpayer F has RI tax of \$50,000, Enterprise Zone Business Credit of \$15,000, Investment credit [10% type] of \$20,000 and R & D credit of \$10,000.

The 10% type investment credit also carries the one-half tax limit [see 44-30-31-1(d)] but the R & D expense credit law specifically provides that, in the ordering of the credits, any investment credit will be used before this credit. In the ordering of credit, Taxpayer F calculates:

Tax	\$50,000
Enterprise Zone Credit	15,000
	35,000 tax payable
10% Investment Credit Limit (1/2 tax payable)	17,500*
	17,500
R & D Expense Credit Limit (1/2 tax payable)	8,750*
	8,750 tax

*Both the remaining \$2,500 of 10% investment credit and \$1,250 of R & D Expense Credit can be carried forward but continue to be subject to the same order and one-half tax limitations.

VI. CONSOLIDATED RETURNS:

The credit allowed shall only be allowed against the tax of that corporation included in a consolidated return that qualifies for the credit and not against the tax of other corporations that may join in the filing of a consolidated return.

VII. DIVISION OF THE CREDIT:

In the event the taxpayer is a partnership, joint venture or small business corporation, the credit shall be divided in the same manner as income.

R. GARY CLARK
TAX ADMINISTRATOR

EFFECTIVE: JANUARY 1, 2003

THIS REGULATION AMENDS AND SUPERCEDES REGULATION CR 96-07
PROMULGATED JANUARY 1, 1996.